United Nations A/66/377*

General Assembly

Distr.: General
26 September 2011

Original: English

Sixty-sixth session
Agenda item 131
Financial reports and audited financial statements, and reports of the Board of Auditors

Financial reports and audited financial statements, and reports of the Board of Auditors for the period ended 31 December 2010 and implementation of the recommendations of the Board relating to the biennium 2008-2009

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2010 (A/66/5/Add.5), as well as the Board's report on the implementation of its recommendations relating to the biennium 2008-2009 (A/66/139). During its consideration of the reports, the Advisory Committee met with members of the Audit Operations Committee, who provided additional information and clarification.

2. The Advisory Committee will consider the Board's report on the capital master plan for the year ended 31 December 2010 (A/66/5 (Vol. V)) when it takes up the ninth annual progress report of the Secretary-General on the implementation of the capital master plan. Similarly, the Board's report on progress in the implementation of the International Public Sector Accounting Standards (IPSAS) (A/66/151) will be considered in conjunction with the fourth progress report of the Secretary-General on the adoption of IPSAS by the United Nations.

* Reissued for technical reasons on 3 October 2011.

11-51404* (E) 031011

Please recycle

II. Voluntary funds administered by the United Nations High Commissioner for Refugees

3. In its report on the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2010, the Board issued an unmodified opinion on those statements (see A/66/5/Add.5). In addition, it recalled that in its 2009 report it had highlighted two emphases of matter without qualifying its opinion: on the unreliability of the records for non-expendable property and on the deficit of $159.9 million in the reserves and fund balances following the provision made for end-of-service and post-retirement liabilities. In the same report, the Board stated that the unmodified opinion for 2010 reflected progress made by the Office of the United Nations High Commissioner for Refugees (UNHCR) in respect of its non-expendable property registers and its assessment that the deficit, which was $72.3 million of net liabilities at the end of 2010, was not indicative of any underlying financial instability. The Board stated that the deficit resulted from UNHCR recognizing end-of-service and post-retirement liabilities while not recognizing its fixed assets and inventory, an imbalance that led to the negative equity position. **While emphasizing the importance of addressing the issues raised by the Board in its report for the year ended 31 December 2010, the Advisory Committee notes that no material errors were found in the financial statements and welcomes the progress made by UNHCR, which has led to the issuance of an unmodified opinion for that period.**

4. In its report, the Board stated that of the 24 recommendations made for the year ended 31 December 2009, 3 (13 per cent) had been fully implemented, 14 (58 per cent) were under implementation and 7 (29 per cent) had not been implemented. That represented a decline in the rate of implementation in comparison to that reflected in the Board's report for 2009, according to which 8 (42 per cent) of the recommendations made in 2008 had been implemented. The Board indicated that the recommendations originally made in 2007 and 2008 that had not been implemented had been reiterated in its report for 2009. In that regard, of the 21 recommendations that were either under implementation or had not been implemented, 64 per cent related to 2009, 0 per cent to 2008 and 26 per cent to 2007 (A/66/5/Add.5, paras. 12 and 13).

5. With regard to the 14 recommendations that were under implementation, the Board noted that in the case of 7, full implementation depended on ongoing medium-term projects, such as the upgrading of the UNHCR computerized databases for non-expendable property. Of the 7 recommendations that had not been implemented, the Board expressed particular concern with respect to the recommendation made in 2009 that UNHCR conduct exhaustive bank reconciliations and reconcile all differences with the general ledger (ibid., paras. 17 and 49).

6. While issuing an unmodified opinion for the year ended 31 December 2010, the Board identified significant concerns about important aspects of the financial, risk and performance management of UNHCR, stating that until those concerns were addressed UNHCR could not fully and objectively demonstrate that it had used its resources cost-effectively in its vital work for refugees.

7. The main findings of the Board were as follows:

(a) The uncertainty resulting from the heavy reliance of UNHCR on voluntary funding had implications for resource management and decision-making and could

lead to a focus on short-term activities for which funds could be spent quickly and that were less dependent on future funding. The Board was also concerned that the uneven pattern of funding and expenditure could lead to an acceleration of year-end disbursements, resulting in increased control and compliance risks (ibid., para. 22);

(b) There was a lack of preparedness for the financial audit, reflected in incomplete audit trails, the number of errors found and inadequate supporting schedules, which the Board felt was indicative of significant deficiencies in the systems and in the quality of the supervision and ownership of the process (ibid., paras. 24-29);

(c) There were weaknesses in financial management and control, particularly in the areas of bank reconciliations (ibid., paras. 46-50), expendable property management (ibid., paras. 59-63) and financial management capability in the field (ibid., paras. 30-33);

(d) The successful implementation of IPSAS in 2012 was at risk, including in terms of whether UNHCR would be able to produce timely and accurate year-end accounts and whether it would realize the full benefits of IPSAS implementation (ibid., paras. 65-88);

(e) Progress towards the implementation of improved performance reporting and results-based management in the Organization was slow (ibid., paras. 89-104);

(f) UNHCR lacked a formal and systematic approach to risk management (ibid., paras. 105-107);

(g) There were weaknesses in the management of implementing partners, in particular with respect to the process for selecting implementing partners and for monitoring the finances and performance of partners. The Board highlighted the fact that UNHCR was heavily dependent on implementing partners for the delivery of some 1,600 projects worldwide and for the management of about one third of its expenditure (approximately $677 million in 2010). The Board felt that the selection process of UNHCR lacked rigour and transparency and noted a low turnover of implementing partners, with approximately one third working with UNHCR for more than 10 years (ibid., paras. 108-138);

(h) A fragmented approach had been adopted to the issue of protracted refugee situations that had significant resource management implications for UNHCR. The Board highlighted that over half of the refugees served by UNCHR had been in protracted refugee situations (five years or more) and that expenditure on such situations was projected to increase to $300 million in 2011 (ibid., paras. 139-158).

8. The Advisory Committee was informed by the Board that UNHCR had accepted all the Board's conclusions and recommendations and had itself identified and recognized many of the weaknesses highlighted in the report. Upon enquiry, the Committee was provided with a document on measures taken or proposed in response to the recommendations in the report of the Board to the General Assembly on the accounts of the voluntary funds administered by UNHCR for the year ended 31 December 2010 (A/AC.96/1099/Add.1), which contains an outline of the plan of UNHCR for addressing the recommendations made by the Board. **The Advisory Committee recognizes that the operational environment in which UNHCR operates, which requires, among other things, that the Office respond rapidly to emergency situations, presents challenges with respect to financial**

management and controls. Nonetheless, the Committee underscores the need for full adherence to the organization's financial regulations and rules and expects that UNHCR will take appropriate measures to ensure the full implementation of the Board's recommendations. In that regard, the Committee expects that UNHCR will make every effort to meet the deadlines for the implementation of those recommendations set out in the above-mentioned document, which has been submitted to the Executive Committee of the Programme of the United Nations High Commissioner for Refugees.

9. **The Advisory Committee is concerned that the weaknesses highlighted with regard to financial management and controls, together with the low financial management capacity at the field level reported by the Board, pose significant risks to the ability of UNHCR to produce IPSAS-compliant financial statements. The Committee trusts that this issue will be prioritized by and receive the attention of senior management necessary for ensuring the successful implementation of IPSAS in 2012.**

III. Implementation of the recommendations of the Board relating to the biennium 2008-2009

10. The report of the Board of Auditors on the implementation of its recommendations relating to the biennium 2008-2009 (A/66/139) covers 15 United Nations entities[1] on which the Board reports on a biennial basis to the General Assembly. The Advisory Committee will consider the Board's findings on the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia and the United Nations Joint Staff Pension Fund in conjunction with the budget proposals for those three entities to be presented to the Assembly at its sixty-sixth session.

11. As noted in paragraph 6 and table 1 of the report (A/66/139), the number of recommendations made by the Board increased 16 per cent over the previous biennium, to 590. As at 31 March 2011, the rate of implementation was 46 per cent, representing a slight decrease in comparison with the previous biennium, when the rate was 47 per cent at the end of March 2009 (ibid., para. 8 and figure I). Of the 590 recommendations made by the Board for the biennium 2008-2009, 272 (46 per cent) had been implemented as at 31 March 2011, 283 (48 per cent) were under implementation, 32 (5 per cent) had not been implemented and 3 (1 per cent) had been overtaken by events. The Board highlighted the fact that its recommendations covered a wide variety of topics across many organizations and that the rates of implementation varied between organizations. As a result, the Board was unable to identify any pattern or trends that would merit comment (ibid., para. 11).

[1] The United Nations, the International Trade Centre UNCTAD/WTO, the United Nations University, the United Nations Development Programme, the United Nations Children's Fund, the United Nations Relief and Works Agency for Palestine Refugees in the Near East, the United Nations Institute for Training and Research, the United Nations Environment Programme, the United Nations Population Fund, the United Nations Human Settlements Programme, the United Nations Office on Drugs and Crime, the International Criminal Tribunal for Rwanda, the International Tribunal for the Former Yugoslavia, the United Nations Joint Staff Pension Fund and the United Nations Office for Project Services.

12. For comparative purposes, information on the relative pace of implementation of the Board's recommendations over three successive bienniums is provided in the table below.

Table
Status of implementation of the recommendations of the Board of Auditors for the bienniums 2008-2009, 2006-2007 and 2004-2005

		Implemented		*Under implementation*		*Not implemented*		*Overtaken by events*	
Biennium	*Number of recommendations*	*Number*	*Percentage*	*Number*	*Percentage*	*Number*	*Percentage*	*Number*	*Percentage*
2008-2009 as at 31 March 2011	590	272	46	283	48	32	5	3	1
2006-2007 as at 31 March 2009	507	238	47	237	46	19	4	13	3
2004-2005 as at 31 May 2007[a]	651	342	52	276	43	28	4	5	1

[a] Excludes 43 recommendations made with regard to the United Nations Office for Project Services.

13. The Board indicated not being seriously concerned about the 48 per cent of recommendations for 2008-2009 that had been implemented only partially because it had found that most entities had set target dates for implementation and that some recommendations could only be addressed fully through the implementation of IPSAS, new or improved enterprise resource planning systems or other business transformation processes. The Board did, however, indicate the need for some entities to establish a dedicated follow-up mechanism and the importance of addressing the root causes of the problems it had identified. As an illustration, the Board highlighted the management of non-expendable property, an issue on which it had issued recommendations to several organizations in previous years. The Board indicated that in many cases the remedial action taken by the Administration consisted solely of issuing guidance to field offices without monitoring the implementation of such guidance. The Board felt that the root causes of the problem had not been addressed (ibid., para. 13).

14. **The Advisory Committee reiterates its call for the full and rapid implementation of the recommendations of the Board and underscores the importance of senior management attention and follow-up to ensure that the root causes of problems are addressed in a systematic manner. In this regard, the Committee further recalls General Assembly resolution 64/268, in which the Assembly requested that managers are effectively held accountable for the implementation of the recommendations of the Board through the identification of priorities, clear time frames and an assessment of actions taken in that regard, in the context of mechanisms for the assessment of managers' performance.**

15. While encouraging greater implementation efforts, the Board noted that, in general, Administrations had considered its recommendations seriously and had developed a range of good practices with respect to enhanced follow-up. These included: (a) the use of the Board's report and recommendations by senior management teams to determine areas for priority action and monitoring; (b) the identification of the root causes of recurring audit observations and the development of action plans to address them; (c) improvement in areas requiring inter-agency cooperation and joint efforts to address issues pertaining to more than one organization; (d) the establishment of clear target dates and completion standards

for the Board's recommendations; and (e) validation and tracking by internal auditors of implementation (ibid., para. 10).

16. As an example of good practice, the Advisory Committee noted that the Board had commended the United Nations Development Programme for enhancing its audit tracking database by introducing a real-time, web-based, tracking database that allowed programme managers to upload supporting documentation when changing the status of implementation of a recommendation. Once such an amendment was made, an alert would automatically be sent to the internal auditors, allowing them to review the supporting documents and reassess the status accordingly (ibid., para. 38). **The Advisory Committee recognizes that addressing the root causes of the issues raised by the Board of Auditors requires not just the sustained commitment of senior management but also effective monitoring and follow-up mechanisms. The Committee trusts that, in instituting such mechanisms, the entities will draw on the best practices highlighted by the Board.**